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Restaurant Industry Operations Report '79

For the United States

National Restaurant Association

Prepared in cooperation with Laventhol & Horwath

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To the Reader:

Restaurant Operations Report '79 is based upon financial and operating data provided by members of the National Restaurant Association. The data analysis and compilation were performed by Laventhol & Horwath, the international accounting firm, and the report was published by the National Restaurant Association. Approximately 600 questionnaires were received from members of the NRA and nearly 400 were used as the basis for this report. This is the first comprehensive study of the operating results of restaurants that includes specific financial information on full-menu tableservice restaurants, and also limited menu operations, both with and without tableservice. According to a recent survey, those three types make up 94 percent of the membership of NRA.

The data have been compiled on the basis of type, location, affiliation, years of operation, sales volume and other significant categories. Separate sections of the report cover the analysis of those restaurants that serve only food, and those serving both food and alcoholic beverages. The operating results are expressed generally as amounts per restaurant seat and ratios to sales, the most common bases used in the industry. The amounts and ratios in the exhibits and text are the arithmetic means of those reporting the data, unless otherwise noted, and they are intended to be used as guidelines and not as standards or goals. They are not an attempt by the National Restaurant Association or Laventhol & Horwath to set or conform prices or operating ratios for the industry. The results of the operations studied can become a basis for comparison with your operation by using the worksheet in the back of the report and the appropriate figures from the schedules. We believe that evaluation of the variances revealed by that comparison can be helpful.

We sincerely appreciate the cooperation of those members who supplied complete data on their restaurants and thus made this study possible. We also thank the personnel of Laventhol & Horwath who contributed astute and informative comments on the restaurant business in their regions.

National Restaurant Association

Robert H. Power
President

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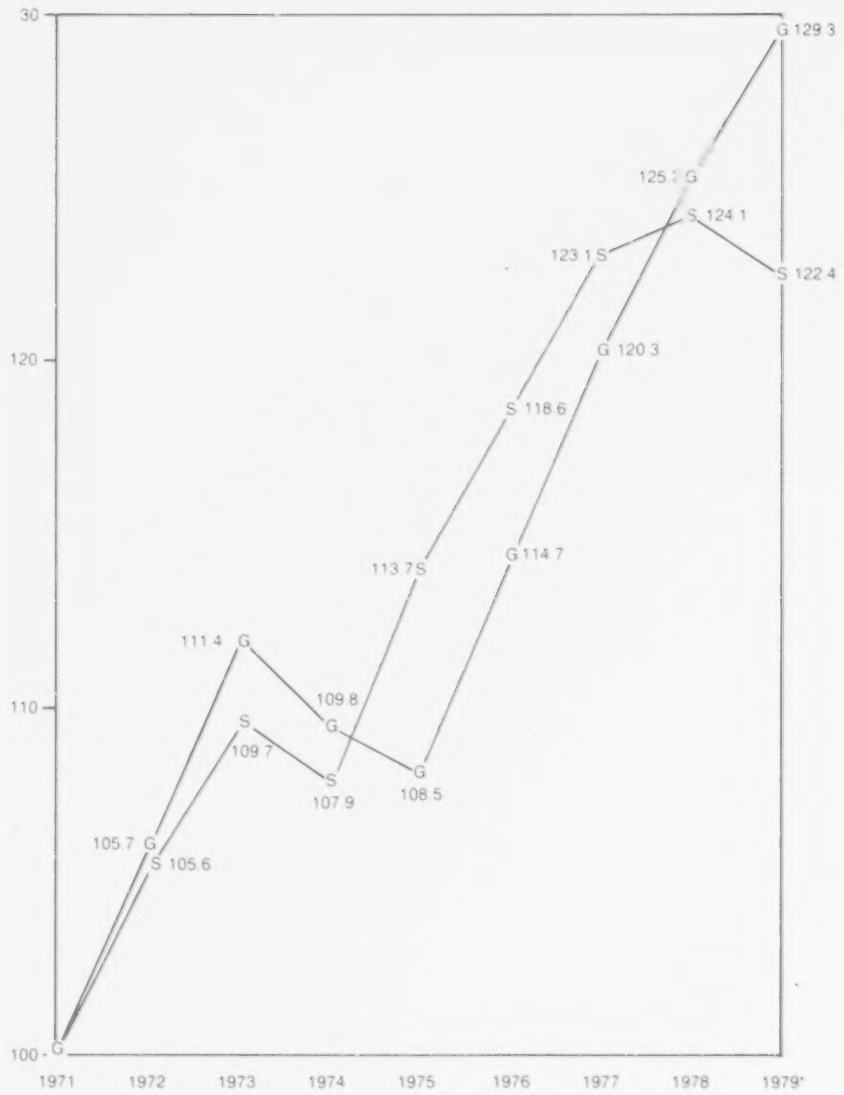
Restaurant Industry— A lead indicator for the economy?

In 1979, sales in the commercial, institutional and military segments of the foodservice industry exceeded $100 billion, an increase of 9 percent from 1978. However, eating place sales, which are 60 percent of total foodservice industry volume, actually declined in 1979 from the previous year after adjustment for menu price increases. Analysis of the decline, and review of the relationship between sales of eating and drinking places and the Gross National Product reveals an interesting comparison which is shown in Chart I. *Are restaurant sales a leading indicator of recessions in the economy?* When adjusted for price increases, sales of eating and drinking places as reported by the U.S. Department of Commerce began to decline early in 1974 prior to the recession which began later in the year. The same trend occurred in 1979. However, restaurant sales grew at a much faster pace than the economy between 1974 and 1977, and the industry could once again outpace the recovery in the early 80s. There are several good reasons to be optimistic about the future of the restaurant industry. In fact, the gradual aging of the population and the increase in the number of two income families have encouraged industry representatives to project for the next decade a return to the relatively high rates of real growth in sales that were common in the 60s.

CHART 1

Increases and Decreases in Index of Food Sales of Eating and Drinking Places in Relation to Gross National Product
(All indices based on 1972 DOLLARS, 1971 = 100)



Source: U.S. Department of Commerce, L&H Estimates

Legend: G = GNP
S = Sales of eating and drinking places

*Estimate for 1979

The other half of the story

In measuring the impact of an industry on the economy, it is important to consider not only the sales of that industry, but also the jobs that it creates, both direct and indirect. The restaurant industry provides direct employment for over 4.5 million persons and in 1979, the cash payroll of the industry was estimated at approximately $20 billion. However, that is only half of the story. In addition, the industry provides indirect employment to an estimated 1.2 million through purchases of goods and services from other industries. Table 1 contains a summary of the allocation of the estimated $53.8 billion of expenditures by the industry for all forms of purchased goods and services, excluding cash payroll but including replacements and additions to furniture, fixtures and equipment and Federal, state and local taxes. The estimates are based upon the analysis of the distribution of the restaurant dollar presented in this study and Laventhol & Horwath estimates of restaurant industry sales in 1979.

TABLE 1

The Restaurant Industry—1979
Purchased Goods and Services*

Industry Group	Amount ($Millions)	Ratio to Total
Construction—		
Maintenance and repair	$ 427	8%
Manufacturing—		
Nondurable goods	3,654	6.8
Durable goods*	3,390	6.3
Communication—Telephone	386	.7
Electric, gas and sanitary services	2,300	4.3
Wholesale trade	27,317	50.8
Finance, insurance and real estate	7,145	13.3
Services—		
Personal	933	1.7
Business	1,609	3.0
Auto repair, services and garages	291	.5
Miscellaneous repair	925	1.7
Amusement and recreation	451	.8
Professional	645	1.2
Other	727	1.4
Government and government enterprises	3,605	6.7
Total	$53,805	100.0%

*Excluding cash payroll, but including replacements and additions to furniture, fixtures and equipment estimated at $3,091 million.
Source: U.S. Department of Commerce; L&H estimates.

Summary

The foodservice industry, including the commercial segment, is one of the most important and dynamic industries in the country. It makes up nearly 5 percent of the Gross National Product, and provides direct and indirect employment for several million persons. Based on past performance and current demographic trends, Laventhol & Horwath estimates that sales in the foodservice industry will begin to grow faster than the economy in the third quarter of 1980 and may outpace the recovery for several years. The industry must commit itself to employee training and development in the next decade so that the improvement in productivity will become a positive factor in this growth. Inflation, energy and labor costs, as well as federal regulation, will continue to challenge restaurant operators in the 80s, but the ingenuity and capability of the successful entrepreneurs who operate the country's eating and drinking places will surmount those obstacles.

The Restaurant Study

Operating Results of Restaurants—1978–1979

by Randell A. Smith
Research, Development & Education
Laventhol & Horwath

Highlights

Food only restaurants

- Sales per seat for the restaurants serving only food were $4,927. This ranged from $4,168 for the limited menu–tableservice restaurants to $6,992 for the limited menu–no tableservice restaurants.
- Food costs per dollar of sales were 38.7 cents or $1,916 per seat.
- The food only restaurants reported cash payroll as a ratio to sales of 27.8 percent and employee benefits of 3.3 percent.
- Net income before tax was 4.1 percent of total sales and return on total assets was 9.6 percent.

Food and beverage restaurants

- Sales per seat for the restaurants serving food and beverages were $4,085. The limited menu–tableservice restaurants had sales per seat of $3,679, while the full menu–tableservice restaurants sales per seat were $4,534.
- Food and beverage costs per dollar of sales were 36.9 cents or $1,498. For those restaurants reporting a net income before tax, food and beverage costs per dollar of sales were 36.6 cents and for those restaurants reporting a net loss it was 38.3 cents.
- Cash payroll absorbed 27.5 percent of sales and employee benefits 4.4 percent of sales.
- Net income before tax was 4.0 percent of total sales for the food and beverage restaurants and the return on total assets was 12.4 percent.

Bases of analysis

The restaurants covered by this analysis represent a broad cross-section of the restaurant industry. This diversity permitted an extensive analysis of the industry by various categories. Perhaps the most significant breakdown was in separating those restaurants serving only food and those serving both food and alcoholic beverages. In Section I, we present the operating results of food only restaurants, and in Section II, food and beverage restaurants are analyzed. Following this initial segregation, we divided the restaurants in each section into additional categories. In most categories, the sub-groupings were the same for the food only restaurants as for the food and beverage restaurants. However, because of differences in operations and industry structure, the volume and type of restaurant categories vary for food and beverage and food only restaurants. The significant categories, along with their respective subgroupings, are as follows:

By years in business:

	Percent of Respondents
Food Only	
Under 5 years	18.4%
5 years and over	81.6
Food and Beverage	
Under 5 years	29.0
5 years and over	71.0

By type of restaurant:

	Percent of Respondents
Food Only	
Limited Menu–No Tableservice (Fast Food)	27.9%
Full Menu–Tableservice	36.3
Limited Menu–Tableservice	16.8
All others	19.0
Food and Beverage	
Full Menu–Tableservice	62.5
Limited Menu–Tableservice	22.7
All others	14.8

By region

	Percent of Respondents
Food Only	
Northeast	10.8%
Southeast	19.3
North Central	36.9
South Central	15.9
West	17.1
Food and Beverage	
Northeast	24.4
Southeast	13.2
North Central	39.4
South Central	10.2
West	12.8

By location:

	Percent of Respondents
Food Only	
Urban	42.4%
Suburban	40.8
Rural	16.8
Food and Beverage	
Urban	55.5
Suburban	38.7
Rural	5.8

By affiliation:

	Percent of Respondents
Food Only	
Single Unit–Independent	60.1%
Multi-Unit–Company operated	22.0
Multi-Unit–Franchisee operated	17.9
Food and Beverage	
Single Unit–Independent	60.1
Multi-Unit–Company operated	22.0
Multi-Unit–Franchisee operated	17.9

By volume:

	Percent of Respondents
Food Only	
Under $300,000	31.8%
$300,000–$599,999	37.4
$600,000 and over	30.8
Food and Beverage	
Under $500,000	35.8
$500,000–$999,999	31.8
$1,000,000 and over	32.4

The comments and exhibits of this report are presented in terms of amounts per seat and percentages of sales, common bases for measurement in the industry. The number of seats include those in public dining areas, bars and lounges, and banquet facilities. The percentages of sales are generally based on total food and beverage sales, but where appropriate, are based on food sales or beverage sales. All figures are the arithmetic means of the data provided, unless otherwise noted.

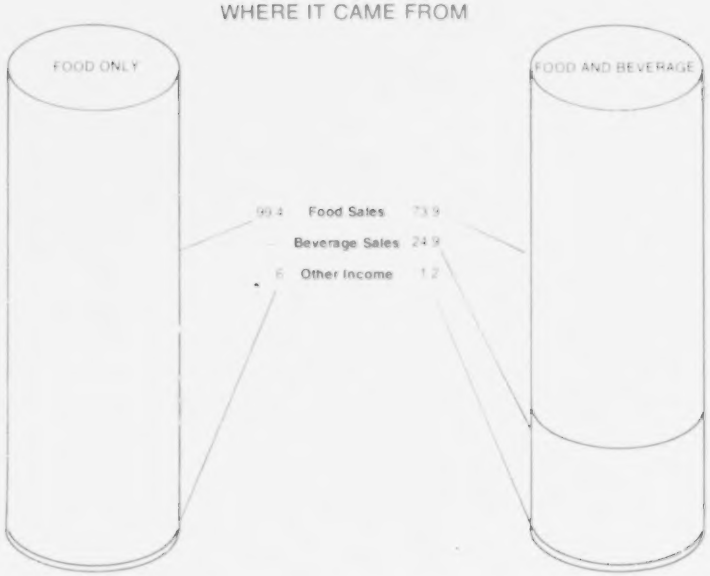
The Restaurant Industry Dollar

The source and distribution of the revenue dollar for the restaurants included in our sample are illustrated in the accompanying table and chart. For the restaurants serving food and beverages, slightly less than three-fourths of their revenues came from food sales with the remaining portion coming from beverage sales and other income. The restaurants serving food only received a small amount from other income.

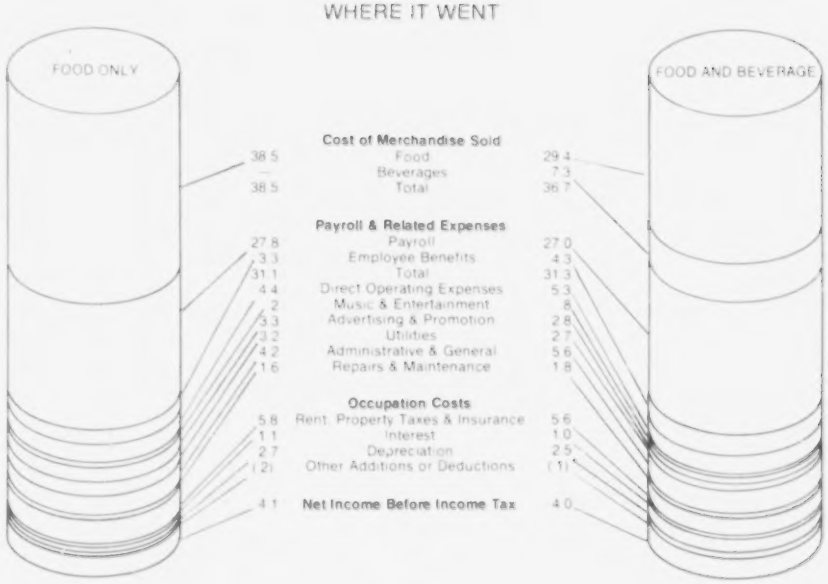
Distribution of the dollar was approximately the same for both food only and food and beverage restaurants. The cost of merchandise sold was slightly less for the food and beverage restaurants while the payroll and related expenses absorbed about 31 cents in both segments. Direct Operating Expenses and Administrative and General were higher in the restaurants serving food and beverages, but Advertising and Promotion and Utilities were higher for the restaurants serving only food. In both segments, the net income before income tax was approximately 4 percent. The results in this analysis are not comparable to our past restaurant operations studies; however they are indicative of the trend in earnings. The 4 percent margin earned by the restaurants in our sample is well below that reported in our *Restaurant Operations—Trends 1973–1977*. Generally, profit margins have declined during the past several years as restaurateurs have been unable to offset the substantial boost in costs.

THE RESTAURANT INDUSTRY DOLLAR

WHERE IT CAME FROM



WHERE IT WENT


FOOD ONLY
FOOD AND BEVERAGE
Cost of Merchandise Sold
38.5 Food 29.4
— Beverages 7.3
38.5 Total 36.7
Payroll & Related Expenses
27.8 Payroll 27.0
3.3 Employee Benefits 4.3
31.1 Total 31.3
4.4 Direct Operating Expenses 5.3
.2 Music & Entertainment .8
3.3 Advertising & Promotion 2.8
3.2 Utilities 2.7
4.2 Administrative & General 5.6
1.6 Repairs & Maintenance 1.8
Occupation Costs
5.8 Rent, Property Taxes & Insurance 5.6
1.1 Interest 1.0
2.7 Depreciation 2.5
(.2) Other Additions or Deductions (.1)
4.1 Net Income Before Income Tax 4.0

Section I. Food Only Restaurants

Profile of participants

The restaurants included in this section serve only food. In size, they ranged from 12 seats to nearly 2,600 seats with a median of 130. The following profile of the typical participant is taken from the appropriate measures of central tendency (arithmetic mean or median).

- Located in the suburbs.
- A privately owned corporation.
- Operates a single, non-affiliated limited menu–no tableservice (fast food) or full menu–tableservice restaurant.
- Leases the land and building, approximately 3,000 square feet of space in a detached facility, but owns the equipment.
- Employs 10 full-time, 10 part-time (20–35 hours) and 4 part-time (less than 20 hours).
- Median volume was slightly less than $440,000.

Net income

Net income before income tax for the food only restaurants was 4.1 percent of total food sales as shown in the dollar chart. In Exhibit I-1, a statement of income and expenses is presented for those restaurants reporting a net income before income tax and those reporting losses. Net income before tax for those reporting a net income varied from less than $10 per seat to $1,954 per seat and from less than .4 percent of food sales to 22.2 percent. Losses ranged from just below break-even to $823 per seat and 22.6 percent of food sales.

Sales per seat for those reporting a net income exceeded the sales per seat for those reporting a net loss by 11.3 percent. The average receipt per food cover and daily seat turnover for the income producing restaurants were 23.2 percent and 22.5 percent higher, respectively, than the net loss group. Obviously, higher turnover was a key factor in enabling the net income group to earn a profit; additionally, more efficient operations and attention to cost controls influenced profitability. As a percentage of sales, the gross profit was extremely close for the two groups.

However, the results began to vary significantly when controllable expenses and occupation costs were analyzed. The restaurants reporting net income were able to hold payroll costs to 26.9 percent of food sales compared with 31.6 percent for the net loss restaurants. Total controllable expenses were, in turn, considerably higher for the net loss group. Occupation costs, both as an amount per seat and as a percentage of food sales, were also higher for the net loss group, sharply reducing management's flexibility in attempting to earn a profit.

EXHIBIT I-1 Food Only

Net Income Differential*

	Amount Per Seat Restaurants Reporting		Ratios to Total Sales Restaurants Reporting	
	Net Income	Net Loss	Net Income	Net Loss
Total sales	$ 5035	$ 4656	100.0%	100.0%
Total cost of sales	$ 1928	$ 1926	38.6%	39.6%
Gross profit	$ 3107	$ 2730	61.4%	60.4%
Other income	31	17	7	5
Total income	$ 3138	$ 2747	62.1%	60.9%
Controllable expenses				
Payroll	$ 1361	$ 1372	26.9%	31.6%
Employee benefits	191	162	3.3	3.4
Direct operating expenses	211	245	4.1	5.3
Music and entertainment	8	3	2	3
Advertising and promotion	146	126	3.2	3.2
Utilities	137	191	2.9	4.1
Administrative and general	196	218	3.9	5.5
Repairs and maintenance	83	95	1.5	1.9
Total controllable expenses	$ 2333	$ 2412	46.0%	55.3%
Income before occupation costs	$ 805	$ 335	16.1%	5.6%
Occupation costs				
Rent, property taxes and insurance	$ 257	$ 331	5.1%	6.3%
Interest	58	42	1.0	1.3
Depreciation	118	134	2.5	3.1
Total occupation costs	$ 433	$ 507	8.6%	10.7%
Net income before other deductions	$ 372	$ (172)	7.5%	(5.1)%
Other additions or deductions	(11)	(19)	(1)	(5)
Net income (loss) before income taxes	$ 361	$ (191)	7.4%	(5.6)%
Other data				
Average receipt per cover			$ 4.35	$ 3.53
Average daily seat turnover			4.52	3.79
Productivity index			3.552	3.002

*Ratios based on individual department sales.

Return on total assets

A restaurant's return on investment is a function of its asset productivity or sales per dollar of total assets and its profit margin or earnings ratio. In Exhibit I-2, these variables are presented for several categories. For all food only restaurants, the return on total assets was 9.6 percent. As expected, the operators that lease the land and building experienced a higher asset productivity than those that own the land and building because of the relatively low level of assets carried on the balance sheet. This was also typically the case for those restaurants which do not occupy a separate or detached building.

The ability to generate revenues and earn a profit sufficient to keep and attract additional capital is crucial to the health and potential growth of the industry. While the sales per dollar of total assets have remained fairly strong, the decline in the earnings ratio has adversely affected the return on investment. Unless this trend is reversed, the industry could experience difficulty competing for scarce capital funds.

EXHIBIT I-2 Food Only

Return on Total Assets*

	Sales Per Dollar of Total Assets	Earnings Ratio	Rate of Return
All food only restaurants	$ 2.03	4.7%	9.6%
Lease land and building	2.15	5.1	11.0
Own land and building	1.80	3.8	6.9
Restaurant occupies separate or detached building:			
Yes	1.89	4.5	8.5
No	3.58	5.9	21.0
By type of restaurant			
Limited menu - no tableservice	2.61	5.6	14.6
Full menu - tableservice	1.71	4.5	7.7
Limited menu - tableservice	2.59	2.2	5.7
All others	3.03	6.6	20.1

*Based on weighted mean of those providing detail

Cost of sales

Total cost of sales as a ratio to total sales was 38.7 percent for all food only restaurants, while payroll costs were 27.8 percent as shown in Exhibit I-3. Total cost of sales varied considerably by type of restaurant, with the limited menu-tableservice restaurants the highest at 40.4 percent and the "all other" category achieving the lowest ratio of 36.1 percent. By location, the rural restaurants tended to have the highest cost of sales. Payroll costs, as expected, were lowest for the limited menu-no tableservice restaurants and highest for full menu-tableservice restaurants.

EXHIBIT I-3 Food Only

Cost Per Dollar of Sales

	Total Cost of Sales	Total Payroll	Total Cost of Sales and Payroll
All food only restaurants	38.7¢	27.8¢	66.5¢
By type of restaurant			
Limited menu - no tableservice	38.2	25.6	63.8
Full menu - tableservice	39.7	29.2	68.9
Limited menu - tableservice	40.4	26.9	67.3
All others	36.1	29.1	65.2
By location			
Urban	37.8	27.8	65.6
Suburban	38.9	27.6	66.5
Rural	40.9	28.1	69.0

Payroll

A comparison of the composition of payroll costs by function is shown in Exhibit I-4. For the entire food only group, service employees absorbed the largest portion of the payroll dollar, receiving nearly 48 percent of the total payroll. Preparation and administrative and general each took about one-fifth of the payroll dollar. Service costs were higher for the limited menu–no tableservice restaurants and for those located in urban areas. The high service costs for the limited menu–no tableservice are primarily attributable to the relatively low preparation costs that are associated with fast food operations. Additional information pertaining to employees is presented in Exhibit I-5. Total number of employees per restaurant averaged 38 and total full-time equivalent employees averaged slightly more than 31. Total sales per full-time equivalent employee were $21,321 with significant variability between the various category subgroupings.

EXHIBIT I-4 Food Only

Breakdown of Payroll by Function-Ratios to Total Payroll*

		Type of Restaurant				Location		
	Total	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others	Urban	Suburban	Rural
Functions								
Service	47.6%	53.2%	48.0%	35.9%	47.8%	54.8%	44.8%	41.1%
Preparation	20.6	14.3	23.5	30.8	17.8	19.9	20.9	21.4
Sanitation	3.5	6	3.4	5.2	6.6	2.3	4.4	3.6
Administrative and general	19.9	24.8	17.9	21.5	14.2	18.9	21.9	16.8
Other	8.4	7.1	7.2	6.6	13.6	4.1	8.0	17.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*Based on those providing detail.

EXHIBIT I-5 Food Only

Analysis of Employee Data*

		Restaurants Reporting		Location			Type of Restaurant			
	Total	Net Income	Net Loss	Urban	Suburban	Rural	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others
Number of employees per restaurant										
Full time	18	18	18	21	17	12	6	29	14	18
Part time (20–35 hours)	13	13	12	12	16	8	7	15	13	15
Part time (less than 20 hours)	7	7	5	6	8	6	5	8	4	10
Total	38	38	35	39	41	26	18	52	31	43
Full time equivalent employees										
Total	31	31	30	33	33	21	14	44	26	34
Per 100 restaurant seats	24.9	24.7	25.9	25.6	26.5	19.3	29.4	23.3	24.1	24.0
Per 100 average daily covers	7.2	7.1	7.8	7.4	7.1	6.7	4.1	9.3	9.4	6.0
Total sales per full time equivalent employee	$21321	$22208	$17290	$20471	$23583	$17705	$27169	$19477	$18256	$18728
Payroll per full-time equivalent employee	$ 5731	$ 5809	$ 5379	$ 5530	$ 6251	$ 4915	$ 6646	$ 5707	$ 4662	$ 5336
Index of productivity	3.454	3.552	3.002	3.508	3.375	3.514	3.710	3.256	3.661	3.267

*Based on those providing sufficient data.

Other controllable expenses

Direct operating expenses

Cleaning, paper and other supplies absorbed most of the direct operating expenses. Exhibit I-6 illustrates the complete breakdown of direct operating expense as an amount per seat, ratio to total sales and as a ratio to total direct operating expenses. As anticipated, several of the expense items normally associated with restaurants serving food and beverages such as menu and wine lists, contract cleaning and china, glassware, silver and utensils, were particularly low as an amount per seat for the food only restaurants. With a ratio to total sales of 4.4 percent, the total direct operating expense was also lower than the 5.3 percent incurred by the food and beverage restaurants.

Advertising and promotion

While miscellaneous items such as advertising agency fees, programs and directories, and donations accounted for the largest portion of the advertising dollar, nearly 26 percent went to newspapers and magazines and 20 percent to radio and television. By type of restaurant, the portion allocated to newspapers and magazines remained fairly constant, but the amounts spent on radio and television and entertainment and sales promotion varied widely. The full menu–tableservice restaurants spent nearly the same portion on these latter two items while the other restaurants spent considerably more funds on radio and television than on entertainment and sales promotion. By volume, the $300,000–$599,999 group allocated only 14.9 percent of the advertising dollar to newspapers and magazines, noticeably less than the lower and upper volume ranges. A comparison is shown in Exhibit 1-7.

EXHIBIT I-6 Food Only
Direct Operating Expenses*

	Amount Per Seat	Ratio to Total Sales	Ratio to Total Direct Operating Exp.
Laundry, linen and uniforms	$ 30	7%	17.2%
China, glassware, silver and utensils	20	4	9.0
Kitchen fuel	7	1	1.5
Cleaning, paper, guests and other supplies	102	1.7	39.9
Menus and wine list	5	1	1.4
Contract cleaning	5	1	2.6
Licenses	9	2	4.6
All other	41	1.1	23.5
Total	$219	4.4%	100.0%

*Based on those providing detail.

Utilities

Electricity absorbed the largest portion of the utilities dollar as shown in Exhibit I-8. As illustrated in this table, electricity and miscellaneous utility expenses exhibited the largest degree of variability within the breakdown for type of restaurant and volume. Electricity costs were especially high for the limited menu–tableservice restaurants and those with low volume.

Administrative and general

A comparison of the administrative expenses is presented in Exhibit I-9. Except for the "all other" items, the portion covering all forms of general insurance and professional fees exceeded the remaining portion by a wide margin. The breakdown of these expenses exhibited remarkable similarity. Almost all expense items were approximately the same, regardless of type of restaurant or volume, as a ratio to total administrative and general expenses. Fees on credit card accounts showed the highest variability.

EXHIBIT I-7 Food Only
How the Advertising Dollar was Spent*

		Type of Restaurant				Volume		
	Total	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others	Under $300,000	$300,000–$599,999	$600,000 and over
Newspapers and magazines	25.8¢	28.2¢	24.7¢	24.6¢	25.3¢	30.9¢	14.9¢	32.2¢
Radio and television	20.1	27.3	15.2	13.7	22.1	12.4	22.5	24.6
Entertainment and sales promotion	7.9	2.9	16.2	1.5	7.0	7.4	5.0	11.3
Outdoor signs	2.1	1.5	2.5	1	3.7	1.7	4.3	4
Direct mail circulars	2.2	2.3	.8	7.0	.9	5.7	6	.7
All other	41.9	37.8	40.6	53.1	41.0	41.9	52.7	30.8

*Based on those providing detail. Excluding franchise fees.

EXHIBIT I-8 Food Only
How the Utilities Dollar was Spent*

		Type of Restaurant				Volume		
	Total	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others	Under $300,000	$300,000–$599,999	$600,000– and over
Electricity	61.8¢	46.9¢	72.2¢	75.2¢	60.8¢	73.4¢	54.6¢	60.0¢
Heat (Fuel)	13.0	10.8	17.1	8.5	14.7	9.3	15.4	13.8
Water	4.0	4.1	3.9	2.5	5.1	3.7	2.6	6.7
Waste removal	4.4	4.9	3.5	3.0	5.7	3.2	3.9	6.5
Miscellaneous	16.8	33.3	3.3	10.8	13.7	10.4	23.5	13.0

*Based on those providing detail.

EXHIBIT I-9 Food Only

How the Administrative Expense Dollar was Spent*

		Type of Restaurant				Volume		
	Total	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others	Under $300,000	$300,000–$599,999	600,000- and over
Provision for doubtful accounts	1.1¢	1.0¢	1.1¢	1.4¢	1.1¢	1.1¢	1.7¢	5¢
Fees on credit card accounts	3.0	N	6.7	2.7	9	7	2.8	5.6
Insurance—general	25.3	19.1	31.0	24.6	24.5	28.8	25.4	21.4
Printing stationery and office supplies	7.2	8.5	7.7	6.0	5.6	5.1	9.0	7.3
Professional fees	20.1	20.6	17.7	21.3	21.6	19.2	21.0	20.1
Telephone	10.5	10.4	8.0	13.4	12.6	12.4	11.6	7.1
Traveling expenses	5.4	5.7	4.1	5.2	7.3	3.3	6.1	6.8
All other	27.4	34.7	23.7	25.4	25.3	29.4	22.4	31.2

*Excluding management fees. Based on those providing detail.
N = Negligible

Occupancy costs

Exhibit I-10 shows the amounts per seat for those restaurants providing detail by type of restaurant, location and region. When analyzed by type of restaurant, the limited menu–no tableservice units spent $320 on the average for rent, considerably higher than the other type. In contrast, the rural restaurants and those located in the Southern and Central United States paid on average lower rent per seat. Property taxes were also lower for these groups. Restaurants located in the Northeast spent $76 per seat on both taxes and insurance, significantly more than the other regions.

Balance sheet

Exhibit I-11 is a comparison of those ratios generally used to measure the financial position of a business and its ability to meet financial obligations. The ratios are based on the data obtained from those participants supplying complete financial statements. For an explanation of the basis of computation and the use of the ratios, please refer to Chapter 9 of *Profitable Restaurant Management* (Chapter 10 in the second edition scheduled for publication in the fall of 1980) by Kenneth I. Solomon and Norman Katz, published by Prentice-Hall. This publication is available from the Educational Materials Center of the NRA, Suite 2600, 1 IBM Plaza, Chicago, Illinois 60611. Telephone (312) 787-2525.

In addition to the balance sheet ratios, we computed the average investment per seat for the establishments that occupy separate buildings and those that lease space, based on those operators providing sufficient detail. The comparison among the various categories and subgroupings is shown in Exhibit 1-12.

EXHIBIT I-10 Food Only

Occupation Costs to Depreciation Amount Per Seat*

		Type of Restaurant				Location			Region				
	Total	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others	Urban	Suburban	Rural	Northeast	Southeast	North Central	South Central	West
Rent	$203	$320	$161	$168	$202	$208	$249	$75	$253	$194	$190	$210	$210
Property taxes	42	47	38	34	53	39	48	33	76	35	55	12	28
Property insurance	27	37	26	23	25	21	37	17	76	30	21	17	19
Interest	55	47	65	55	40	35	76	43	37	45	44	120	38
Depreciation	121	182	98	116	108	123	135	79	129	121	102	156	126

*Based on those providing detail.

EXHIBIT I-11 Food Only

Balance Sheet Ratios*

		Type of Restaurant			
	Total	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others
Assets					
Current ratio		$ 4.08	$ 2.62	$ 2.57	$ 1.55
Accounts receivable percentage of total sales		0.5%	0.5%	—	2.4%
Food inventory turnover		41.2	27.8	38.6	31.5
Ratio of net book value of fixed assets to equity		.9	.8	.7	1.4
Liabilities and equity					
Ratio of current liabilities to total liabilities		.6	.5	.5	.7
Ratio of debt to equity		1.5	1.2	8.2	1.4

*Based on those companies providing complete information.

EXHIBIT I-12 Food Only

Investment Per Seat

	Own Land and Building	Lease Land and Building
Land	$ 207	—
Building and improvements	626	—
Leasehold improvements	—	$ 78
Furniture and equipment	361	298
Other assets	82	329
Total	$1276	$705

Summary

In the next four exhibits, L&H presents the average amounts per seat and ratios to total sales for each of the various categories and subgroupings. The information contained in this section is extremely useful for comparing the results of different types of operations. A composite analysis relating the appropriate subgroupings provides a method of reviewing and comparing the results of your restaurant.

EXHIBIT I-13 Food Only

Statement of Income and Expenses—Amounts Per Seat

	Years in Business		Type of Restaurant				Region				
	Under 5 Years	5 Years and Over	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others	Northeast	Southeast	North Central	South Central	West
Total sales	$4458	$5048	$6992	$4380	$4168	$4669	$6885	$4848	$4313	$5089	$5139
Total cost of sales	$1708	$1969	$2853	$1677	$1628	$1724	$2831	$1856	$1666	$1770	$2122
Gross profit	$2750	$3079	$4139	$2703	$2540	$2945	$4054	$2992	$2647	$3319	$3017
Other income	12	32	28	34	26	16	(22)	26	13	92	38
Total income	$2762	$3111	$4167	$2737	$2566	$2961	$4032	$3018	$2660	$3411	$3055
Controllable expenses											
Payroll	$1140	$1409	$1716	$1292	$1184	$1276	$1981	$1296	$1185	$1447	$1352
Employee benefits	166	189	208	189	159	174	368	193	140	163	181
Direct operating expenses	210	219	265	208	175	227	401	231	160	213	219
Music and entertainment	13	7	8	14	2	1	4	19	1	6	15
Advertising and promotion	214	122	346	72	93	123	86	165	125	176	163
Utilities	138	150	197	132	129	147	203	144	147	169	100
Administrative and general	192	201	346	141	176	192	151	191	177	347	174
Repairs and maintenance	61	91	120	83	64	72	123	74	75	102	83
Total controllable expenses	$2134	$2388	$3206	$2131	$1982	$2212	$3317	$2313	$2010	$2623	$2287
Income before occupation costs	$ 628	$ 723	$ 961	$ 606	$ 584	$ 749	$ 715	$ 705	$ 650	$ 788	$ 768
Occupation costs											
Rent, property taxes and insurance	274	271	403	225	224	281	407	260	267	240	256
Income before interest and depreciation	$ 354	$ 452	$ 558	$ 381	$ 360	$ 468	$ 308	$ 445	$ 383	$ 548	$ 512
Interest	$ 61	$ 53	$ 47	$ 65	$ 55	$ 40	$ 37	$ 45	$ 44	$ 120	$ 38
Depreciation	$ 121	$ 120	$ 182	$ 98	$ 116	$ 108	$ 129	$ 121	$ 102	$ 156	$ 126
Restaurant profits	$ 172	$ 279	$ 329	$ 218	$ 189	$ 320	$ 142	$ 279	$ 237	$ 272	$ 348

EXHIBIT I-14 Food Only

Statement of Income and Expenses—Ratios to Total Sales

	Years in Business		Type of Restaurant				Region				
	Under 5 Years	5 Years and Over	Limited Menu No Tableservice	Full Menu Tableservice	Limited Menu Tableservice	All Others	Northeast	Southeast	North Central	South Central	West
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total cost of sales	38.6%	38.8%	38.2%	39.7%	40.4%	36.4%	41.2%	38.7%	38.2%	36.3%	40.2%
Gross profit	61.4%	61.2%	61.8%	60.3%	59.6%	63.6%	58.8%	61.3%	61.8%	63.7%	59.8%
Other income	.3	.8	.3	1.3	.5	.4	.5	.6	.3	2.0	.5
Total income	61.7%	62.0%	62.1%	61.6%	60.1%	64.0%	4	61.9%	62.1%	65.7%	60.3%
Controllable expenses											
Payroll	26.5%	26.0%	25.6%	29.2%	26.9%	28.6%	26.8%	27.2%	27.8%	29.8%	26.6%
Employee benefits	3.5	3.3	2.8	3.6	3.5	3.3	4.1	3.1	3.1	3.3	3.5
Direct operating expenses	4.7	4.3	3.4	4.8	3.7	5.6	5.7	5.3	4.0	3.6	4.1
Music and entertainment	.3	.2	N	.5	.2	N	.2	.4	.1	.1	.5
Advertising and promotion	4.0	3.0	5.6	1.6	2.6	3.1	2.0	3.0	3.6	4.0	2.3
Utilities	3.6	3.0	3.3	3.2	3.1	3.0	3.0	2.9	3.4	3.5	2.5
Administrative and general	4.5	4.1	5.0	3.8	4.2	3.7	3.1	4.6	3.7	6.7	3.2
Repairs and maintenance	1.5	1.6	1.6	1.8	1.4	1.4	1.6	1.4	1.7	1.5	1.6
Total controllable expenses	48.6%	47.5%	47.3%	48.5%	45.6%	48.7%	46.5%	47.9%	47.4%	52.5%	44.9%
Income before occupation costs	13.1%	14.5%	14.8%	13.1%	14.5%	15.3%	12.8%	14.0%	14.7%	13.2%	15.4%
Occupation costs											
Rent, property taxes and insurance	6.4	5.2	5.3	5.3	5.1	5.8	5.4	4.8	6.1	4.3	5.6
Income before interest and depreciation	6.7%	9.3%	9.5%	7.8%	9.4%	9.5%	7.4%	9.2%	8.6%	8.9%	9.8%
Interest	1.5%	1.0%	.6%	1.4%	1.6%	.8%	.9%	1.4%	1.0%	1.1%	.8%
Depreciation	2.8%	2.6%	2.6%	2.4%	3.0%	2.6%	2.5%	2.8%	2.5%	2.9%	2.4%
Restaurant profits	2.4%	5.7%	6.3%	4.0%	4.8%	6.1%	4.0%	5.0%	5.1%	4.9%	6.6%

EXHIBIT I-15 Food Only

Statement of Income and Expenses—Amounts Per Seat

	Location			Affiliation			Volume		
					Multi-Unit				
	Urban	Suburban	Rural	Single Unit Independent	Company Operated	Franchise Operated	Under $300 000	$300 000 - $599 999	$600 000 and Over
Total sales	$5388	$5276	$3087	$4268	$5585	$6030	$3426	$4186	$7017
Total cost of sales	$2036	$2071	$1276	$1744	$2132	$2133	$1433	$1674	$2592
Gross profit	$3352	$3205	$1811	$2524	$3453	$3897	$1993	$2512	$4425
Other income	27	30	25	23	36	32	17	13	52
Total income	$3379	$3235	$1836	$2547	$3489	$3929	$2010	$2525	$4477
Controllable expenses									
Payroll	$1514	$1413	$ 872	$1246	$1367	$1649	$ 851	$1168	$1992
Employee benefits	222	190	89	165	206	213	79	145	318
Direct operating expenses	258	221	121	194	236	266	148	175	322
Music and entertainment	13	5	5	13	1	3	2	6	17
Advertising and promotion	132	177	68	65	347	103	83	140	194
Utilities	136	177	100	118	169	207	119	117	204
Administrative and general	275	176	98	126	219	396	189	129	280
Repairs and maintenance	93	93	50	73	82	124	58	70	124
Total controllable expenses	$2643	$2452	$1403	$2000	$2627	$2961	$1529	$1950	$3451
Income before occupation costs	$ 736	$ 783	$ 433	$ 547	$ 862	$ 968	$ 481	$ 575	$1026
Occupation costs									
Rent, property taxes and insurance	268	334	125	206	392	321	205	193	411
Income before interest and depreciation	$ 468	$ 449	$ 308	$ 341	$ 470	$ 647	$ 276	$ 382	$ 615
Interest	$ 35	$ 76	$ 43	$ 38	$ 50	$ 110	$ 36	$ 31	$ 96
Depreciation	$ 123	$ 135	$ 79	$ 109	$ 119	$ 160	$ 99	$ 103	$ 157
Restaurant profits	$ 310	$ 238	$ 186	$ 194	$ 301	$ 377	$ 141	$ 248	$ 362

EXHIBIT I-16 Food Only

Statement of Income and Expenses—Ratios to Total Sales

	Location			Affiliation			Volume		
	Urban	Suburban	Rural	Single Unit Independent	Multi-Unit Company Operated	Multi-Unit Franchise Operated	Under $300,000	$300,000 - $599,999	$600,000 and Over
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total cost of sales	37.8%	38.9%	41.3%	40.6%	38.3%	31.7%	39.8%	38.7%	37.9%
Gross profit	62.2%	61.1%	58.7%	59.4%	61.7%	68.3%	60.2%	61.3%	62.1%
Other income	1.0	.4	.6	1.0	.6	.5	.3	.3	1.6
Total income	63.2%	61.5%	59.3%	60.4%	62.3%	68.8%	60.5%	61.6%	63.7%
Controllable expenses									
Payroll	27.8%	27.6%	27.6%	28.9%	25.3%	24.5%	26.1%	28.4%	28.6%
Employee benefits	3.2	3.5	2.9	3.4	3.2	3.4	2.5	3.3	4.1
Direct operating expenses	4.8	4.2	3.7	4.5	4.0	3.5	4.2	4.5	4.4
Music and entertainment	.3	.1	.3	.5	—	.5	.1	.1	.5
Advertising and promotion	3.6	3.1	2.4	1.4	6.3	5.5	2.8	4.0	2.7
Utilities	3.0	3.3	3.3	3.1	3.5	3.5	3.5	3.1	2.9
Administrative and general	5.2	3.5	3.3	3.1	4.1	9.9	5.4	3.1	4.3
Repairs and maintenance	1.5	1.6	1.6	1.6	1.6	2.4	1.4	1.7	1.6
Total controllable expenses	49.4%	46.9%	45.1%	46.5%	48.0%	53.2%	46.0%	48.2%	49.1%
Income before occupation costs	13.8%	14.6%	14.2%	13.9%	14.3%	15.6%	14.5%	13.4%	14.6%
Occupation costs									
Rent, property taxes and insurance	5.2	5.9	4.2	4.8	7.8	6.0	5.0	5.0	5.8
Income before interest and depreciation	8.6%	8.7%	10.0%	9.1%	6.5%	9.6%	9.5%	8.4%	8.8%
Interest	.7%	1.3%	1.6%	1.2%	1.2%	1.0%	1.3%	.9%	1.2%
Depreciation	2.5%	2.7%	2.6%	2.8%	2.9%	2.2%	3.1%	2.4%	2.4%
Restaurant profits	5.4%	4.7%	5.8%	5.1%	2.4%	6.4%	5.1%	5.1%	5.2%

Section II. Food and Beverage Restaurants

Profile of participants

Serving food and alcoholic beverages, the restaurants involved in this section ranged from 32 seats to over 1,200. The median was 200 seats, considerably larger than the typical food only restaurant. The following profile of the food and beverage participant is taken from the appropriate measures of central tendency (arithmetic mean or median).

- Located in an urban area.
- A privately owned corporation.
- Operates a single, non-affiliated full menu–tableservice restaurant.
- Leases the land and building, over 5600 square feet of space in a separate building, but owns the equipment.
- Employs 23 full-time, 18 part-time (20–35 hours) and 9 part-time (less than 20 hours).
- Median volume was $666,000, ranging from approximately $100,000 to over $5.4 million.

Net income

In Exhibit II-1, the net income differential is presented for the food and beverage restaurants. Total sales per seat for the income producing restaurants exceeded the net loss restaurants by nearly 36 percent, but a smaller portion of their revenues came from the sale of beverages. With a lower cost of goods sold, the income producing restaurants earned a higher total income and maintained better control over expenses. Total occupation costs were over 40 percent higher for the loss restaurants than for the income group. Compared with the food only restaurants, the net income food and beverage restaurants tended to earn slightly less and the net loss ones tended to lose more.

EXHIBIT II-1 Food and Beverage
Net Income Differential*

	Amounts Per Seat Restaurants Reporting		Ratios to Total Sales Restaurants Reporting	
	Net Income	Net Loss	Net Income	Net Loss
Sales				
Food	$ 3203	$ 2367	75.2%	73.6%
Beverages	1165	851	24.8	26.4
Total sales	$ 4368	$ 3218	100.0%	100.0%
Cost of sales				
Food*	$ 1255	$ 984	39.6%	42.4%
Beverages*	334	241	29.5	28.7
Total cost of sales	$ 1589	$ 1225	36.6%	38.3%
Gross profit	$ 2779	$ 1993	63.4%	61.7%
Other income	53	13	2.0	6
Total income	$ 2832	$ 2006	65.4%	62.3%
Controllable expenses				
Payroll	$ 1161	$ 970	26.9%	29.8%
Employee benefits	198	158	4.3	4.6
Direct operating expenses	228	187	5.4	5.5
Music and entertainment	25	24	7	9
Advertising and promotion	101	105	2.5	3.7
Utilities	100	101	2.5	3.6
Administrative and general	247	196	5.6	6.6
Repairs and maintenance	74	72	1.7	2.4
Total controllable expenses	$ 2134	$ 1813	49.6%	57.1%
Income before occupation costs	$ 698	$ 193	15.8%	5.2%
Occupation costs				
Rent, property taxes and insurance	$ 237	$ 241	5.5%	7.4%
Interest	32	36	9	1.4
Depreciation	90	100	2.3	3.5
Total occupation costs	$ 359	$ 377	8.7%	12.3%
Net income before other deductions	$ 339	$ (184)	7.1%	(7.1)%
Other additions and deductions	(3)	7	(1)	3
Net income (loss) before income taxes	$ 336	$ (177)	7.0%	(6.8)%
Other data				
Average receipt per cover			$ 6.03	$ 6.32
Average daily seat turnover			1.91	1.49
Productivity index			3.356	3.006

*Ratios based on individual department sales

Return on total assets

A combination of higher sales per dollar of total assets and higher earnings ratio enabled the food and beverage restaurants to earn 12.4 percent on their total assets. The return on investment (ROI) varied considerably between the various category subgroupings. The limited menu–tableservice restaurants and those that lease the land and building achieved the highest returns. As illustrated in Exhibit II-2, profit margins were very much a factor in the ROI when the sample is broken down by whether the restaurant occupies a separate or detached building. With nearly the same asset productivity, the higher profit margins for those that do not occupy a separate or detached building pushed their return on total assets sharply higher.

The food and beverage restaurants achieved a higher asset productivity than food only restaurants, primarily because of the additional volume associated with beverage sales. For the food and beverage restaurants in our sample, the variability in earnings was substantially less, thereby indicating lower risk associated with this type of operation. This segment of the industry is experiencing increased interest from the major food-service chains. This profitability has initiated the development of full menu, food and beverage restaurants that could be expanded rapidly.

EXHIBIT II-2 Food and Beverage
Return on Total Assets*

	Sales Per Dollar of Total Assets	Earnings Ratio	Rate of Return
All food and beverage restaurants	$ 2.97	4.2%	12.4%
Lease land and building	3.63	5.0	18.2
Own land and building	2.34	3.5	8.1
Restaurant occupies separate or detached building:			
Yes	2.99	3.6	10.6
No	2.92	6.3	18.3
By type of restaurant			
Full menu–tableservice	2.89	4.0	11.6
Limited menu–tableservice	3.56	5.8	20.6
All others	3.13	2.4	7.5

*Based on weighted mean of those providing detail

Cost of sales

The cost per dollar of sales and total payroll are illustrated for goods sold in Exhibit II-3. For the entire food and beverage restaurant sample, food costs absorbed about 40 cents of the food sales dollar while beverage costs were nearly a third less at 29.3 cents of the beverage dollar. Total cost of goods sold took 36.9 cents and total payroll, 27.5 cents of the total sales dollar. The full menu tableservice restaurants experienced the highest cost per dollar of sales along with those properties located in a suburban area.

EXHIBIT II-3 Food and Beverage
Cost Per Dollar of Sales

	Food	Beverages	Total Cost of Goods Sold	Total Payroll	Total Cost of Sales and Payroll
All food and beverage restaurants	40.2¢	29.3¢	36.9¢	27.5¢	64.4¢
By type of restaurant					
Full menu–tableservice	41.6	30.4	38.5	29.0	67.5
Limited menu–tableservice	38.2	27.8	34.4	25.1	59.5
All others	36.9	26.9	34.0	25.0	59.0
By location					
Urban	38.5	29.0	35.5	27.0	62.5
Suburban	42.4	29.2	38.8	28.0	66.8
Rural	40.2	30.7	38.1	27.7	65.8

*Based on individual department sales

Payroll

An analysis of the payroll dollar is illustrated in Exhibit II-4 and additional employee data in Exhibit II-5. Service and preparation employees accounted for over 50 percent of the total payroll dollar; however, a significant portion, 22 percent, was allocated to administrative and general. Number of employees per restaurant averaged 50 and after adjusting for part-time employees, the average number of full-time equivalent employees was 41. Total sales per full-time equivalent employee were $22,523, only 5.6 percent higher than for the food only restaurants. The index of productivity was slightly less for the food and beverage restaurants than for the food only segment.

EXHIBIT II-4 Food and Beverage
Breakdown of Payroll by Function Ratios to Total Payroll*

		Type of Restaurant			Location		
	Total	Full Menu Tableservice	Limited Menu Tableservice	All Others	Urban	Suburban	Rural
Functions							
Service	32.1%	30.7%	34.6%	35.9%	30.9%	34.1%	28.9%
Bartenders	8.3	7.5	13.2	3.8	8.4	8.0	9.1
Preparation	27.2	27.3	21.7	36.0	29.1	25.2	26.4
Sanitation	6.0	7.1	3.7	4.2	6.0	6.2	5.1
Administrative and general	22.0	22.0	24.8	17.3	21.6	23.6	14.8
Other	4.4	5.4	2.0	2.8	4.0	2.9	15.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*Based on those providing detail

EXHIBIT II-5 Food and Beverage
Analysis of Employee Data*

		Restaurants Reporting		Location			Type of Restaurant		
	Total	Net Income	Net Loss	Urban	Suburban	Rural	Full Menu Tableservice	Limited Menu Tableservice	All Others
Number of employees per restaurant									
Full time	23	25	17	24	22	25	28	16	10
Part time (20–35 hours)	18	19	12	18	19	13	19	18	11
Part time (less than 20 hours)	9	9	13	7	13	7	10	8	5
Total	50	53	42	49	54	45	57	42	26
Full time equivalent employees									
Total	41	44	33	41	43	38	47	34	11
Per 100 restaurant seats	18.7	19.7	15.1	18.9	18.1	20.7	21.2	15.0	12.7
Per 100 average daily covers	13.6	13.1	15.9	12.7	12.9	19.4	14.5	11.3	10.3
Total sales per full time equivalent employee	$22523	$23001	$21083	$22021	$24652	$16980	$21299	$26085	$22644
Payroll per full time equivalent employee	$ 6039	$ 6035	$ 6130	$ 5794	$ 6617	$ 4941	$ 6070	$ 6230	$ 5602
Index of productivity	3.282	3.356	3.006	3.327	3.262	3.256	3.099	3.587	3.646

*Based on those providing sufficient data

EXHIBIT II-6 Food and Beverage
Direct Operating Expenses*

	Amount Per Seat	Ratio to Total Sales	Ratio to Total Direct Operating Exp.
Laundry, linen and uniforms	$ 40	1.0%	18.6%
China, glassware, silver and utensils	34	7	14.6
Kitchen fuel	7	2	2.8
Cleaning, paper, guests and other supplies	67	1.7	35.1
Menus and wine list	5	1	2.3
Contract cleaning	14	3	6.1
Licenses	9	3	5.2
All other	35	8	15.3
Total	$211	5.1%	100.0%

*Based on those providing detail

Other controllable expenses

Direct operating expenses

The portion of direct operating expenses incurred for supplies, 35.1 percent, was nearly twice the expenditure for laundry, linen and uniforms as shown in Exhibit II-6. Total direct operating expenses were $211 per seat, $7 less than the food only restaurants, and 5.1 percent of total sales, 16 percent more than the food only segment.

Advertising and promotion

The advertising dollar is analyzed in Exhibit II-7. Newspapers and magazines were the overwhelming choice of the restaurateurs for marketing their establishment. By type of restaurant, the full menu–tableservice restaurants and those with sales volume over $1,000,000 spent only 7 percent of their advertising dollar on radio and television, significantly less than the other sub-groupings.

EXHIBIT II-7 Food and Beverage

How the Advertising Dollar was Spent*

		Type of Restaurant			Volume		
	Total	Full Menu Tableservice	Limited Menu Tableservice	All Others	Under $500,000	$500,000–$999,999	$1,000,000 and Over
Newspapers and magazines	33.7¢	32.4¢	37.0¢	32.0¢	36.2¢	30.7¢	33.1¢
Radio and television	13.7	7.0	20.1	24.4	21.2	10.1	7.0
Entertainment and sales promotion	15.1	21.1	4.4	13.8	10.1	18.2	18.7
Outdoor signs	4.1	5.0	.5	7.7	6.4	2.3	2.9
Direct mail circulars	1.6	2.6	.2	.8	.7	.1	2.4
All other	31.8	31.9	37.8	21.3	25.4	36.6	35.9

*Based on those providing detail. Excluding franchise fees.

Utilities

As with the food only restaurants, over 60 cents of the utilities dollar was spent on electricity as shown in Exhibit II-8. By type of restaurant, the full menu–tableservice restaurants spent 18.2 cents on heat, higher than both other sub-groupings. The high volume restaurants also tended to spend more on heat and less on electricity than the lower volume units. Utility expenses, as a ratio to sales, were less for the food and beverage restaurants than for the food only group. On a square footage basis, the food and beverage restaurants spent $3.49 per square foot in the building, while the food only restaurants spent $6.03 per square foot.

EXHIBIT II-8 Food and Beverage

How the Utilities Dollar was Spent*

		Type of Restaurant			Volume		
	Total	Full Menu Tableservice	Limited Menu Tableservice	All Others	Under $500,000	$500,000–$999,999	$1,000,000 and Over
Electricity	63.3¢	61.0¢	64.6¢	75.0¢	71.2¢	62.8¢	58.1¢
Heat (fuel)	16.7	18.2	15.5	9.5	10.8	19.7	18.5
Water	6.4	6.1	7.7	5.5	4.9	5.9	8.0
Waste removal	7.4	8.4	5.7	4.6	3.3	9.5	8.5
Miscellaneous	6.2	6.3	6.5	5.4	9.8	2.1	6.9

*Based on those providing detail.

Administrative and General

As illustrated in Exhibit II-9, general insurance accounted for the largest specific portion of the administrative dollar; substantially more was spent on miscellaneous items included in "all others". The expenditures for administrative and general expenses were dispersed throughout the various items in contrast to the food only restaurants which tended to allocate their administrative dollar among only a few items. As expected, fees on credit cards were substantially higher for the food and beverage restaurants than for the food only segment, while expenditures on professional fees were lower.

EXHIBIT II-9 Food and Beverage

How the Administrative Expenses Dollar was Spent*

		Type of Restaurant			Volume		
	Total	Full Menu Tableservice	Limited Menu Tableservice	All Others	Under $500,000	$500,000–$999,999	$1,000,000 and Over
Provision for doubtful accounts	1.0¢	.8¢	.9¢	1.8¢	1.0¢	.7¢	1.3¢
Fees on credit card accounts	14.2	16.7	13.2	4.2	4.7	19.1	20.6
Insurance—general	19.1	21.3	15.9	14.2	19.0	18.8	19.7
Printing, stationery and office supplies	7.7	9.2	3.8	6.9	6.7	8.9	7.7
Professional fees	13.2	15.6	10.1	7.3	11.4	16.2	12.5
Telephone	8.9	8.7	8.1	10.9	9.6	8.8	8.0
Traveling expenses	5.0	5.1	4.7	4.7	5.5	4.8	4.5
All other	30.9	22.6	43.3	50.0	42.1	22.7	25.7

*Excluding management fees. Based on those providing detail.

Occupancy costs

Exhibit II-10 illustrates the occupancy costs and depreciation per seat for the restaurants included in our sample. The costs incurred for each of these items were less than those reported by the food only restaurants by a wide margin. In addition, these costs did not vary as much within the categories as they did for the food only segment. The restaurants located in the South and those in rural areas tended to have lower occupancy costs, but depreciation was significantly lower for the restaurants located in the North Central United States.

EXHIBIT II-10 Food and Beverage

Occupation Costs and Depreciation Amount Per Seat*

		Type of Restaurant			Location			Region				
	Total	Full Menu Tableservice	Limited Menu Tableservice	All Others	Urban	Suburban	Rural	Northeast	Southeast	North Central	South Central	West
Rent	$177	$183	$160	$180	$186	$181	$107	$153	$196	$153	$105	$312
Property taxes	35	39	28	32	37	34	12	23	25	41	32	30
Property insurance	25	28	18	25	27	24	19	31	22	29	12	15
Interest	33	33	31	36	28	42	27	42	35	34	19	27
Depreciation	93	86	114	87	98	89	82	97	80	100	81	85

*Based on those providing detail

Balance sheet

Exhibit II-11 is a comparison of those ratios generally used to measure the financial position of a business and its ability to meet financial obligations. The ratios are based on the data obtained from those participants supplying complete financial statements. For an explanation of the basis of computation and the use of the ratios, please refer to Chapter 9 of *Profitable Restaurant Management* (Chapter 10 in the second edition scheduled for publication in the fall of 1980) by Kenneth I. Solomon and Norman Katz, published by Prentice-Hall. This publication is available from the Educational Materials Center of the NRA, Suite 2600, 1 IBM Plaza, Chicago, Illinois 60611. Telephone (312) 787-2525.

In addition to the balance sheet ratios, we computed the average investment per seat for the establishments that occupy separate buildings and those that lease space, based on those operators providing sufficient detail. The comparison among the various categories and subgroupings is shown in Exhibit II-12.

EXHIBIT II-11 Food and Beverage

Balance Sheet Ratios*

		Type of Restaurant		
	Total	Full Menu Tableservice	Limited Menu Tableservice	All Others
Assets				
Current ratio	$2.72	$2.03	$2.37	$7.30
Accounts receivable percentage of total sales	1.1%	1.6%	0.3%	0.3%
Food inventory turnover	36.0	41.9	32.2	26.6
Beverage inventory turnover	16.4	14.0	17.8	20.3
Ratio of net book value of fixed assets to equity	.4	.6	.3	.1
Liabilities and equity				
Ratio of current liabilities to total liabilities	.6	.6	.7	.6
Ratio of debt to equity	1.8	2.6	3	.8

*Based on those companies providing complete information

EXHIBIT II-12 Food and Beverage

Investment Per Seat

	Own Land and Building	Lease Land and Building
Land	$ 177	—
Building and improvements	561	—
Leasehold improvements	—	133
Furniture and equipment	325	332
Other assets	187	145
Total	$1250	$610

Summary

In the next four exhibits, L&H presents the average amounts per seat and ratios to total sales for each of the various categories and subgroupings. The information contained in this section is extremely useful for comparing the results of different types of operations. A composite analysis relating the appropriate subgroupings provides a method of reviewing and comparing the results of your restaurant.

EXHIBIT II-13 Food and Beverage

Statement of Income and Expenses—Amounts Per Seat

	Years in Business		Type of Restaurant			Region				
	Under 5 Years	5 Years and Over	Full Menu Tableservice	Limited Menu Tableservice	All Others	Northeast	Southeast	North Central	South Central	West
Sales										
Food	$2772	$3090	$3300	$2688	$2203	$3120	$3264	$2862	$2022	$3615
Beverages	959	1141	1234	991	623	1253	1007	879	713	1317
Total sales	$3731	$4231	$4534	$3679	$2826	$4373	$4271	$3741	$2735	$4932
Cost of sales										
Food*	$1028	$1252	$1345	$1007	$ 801	$1299	$1371	$1098	$ 720	$1417
Beverages*	277	325	354	285	170	370	317	246	207	357
Total cost of sales	$1305	$1577	$1699	$1292	$ 971	$1669	$1688	$1344	$ 927	$1774
Gross profit	$2426	$2654	$2835	$2387	$1855	$2704	$2583	$2397	$1808	$3158
Other income	31	50	60	18	18	16	26	36	104	105
Total income	$2457	$2704	$2895	$2405	$1873	$2720	$2609	$2433	$1912	$3263
Controllable expenses										
Payroll	$ 984	$1165	$1298	$ 887	$ 678	$1165	$1148	$1009	$ 818	$1337
Employee benefits	146	206	228	142	91	231	163	162	125	240
Direct operating expenses	205	223	257	170	126	228	216	192	167	304
Music and entertainment	34	22	26	23	29	26	36	18	19	53
Advertising and promotion	112	97	91	110	133	93	110	116	43	92
Utilities	105	98	104	98	89	115	105	99	69	99
Administrative and general	253	226	218	277	236	235	183	264	128	256
Repairs and maintenance	67	77	78	66	66	76	86	71	58	77
Total controllable expenses	$1906	$2114	$2300	$1773	$1448	$2169	$2047	$1931	$1427	$2458
Income before occupation costs	$ 551	$ 590	$ 595	$ 632	$ 425	$ 551	$ 562	$ 502	$ 485	$ 805
Occupation costs										
Rent, property taxes and insurance	252	232	250	203	237	207	243	223	148	357
Income before interest and depreciation	$ 299	$ 358	$ 345	$ 429	$ 188	$ 344	$ 319	$ 279	$ 337	$ 448
Interest	$ 45	$ 28	$ 33	$ 31	$ 36	$ 42	$ 35	$ 34	$ 19	$ 27
Depreciation	$ 105	$ 87	$ 86	$ 114	$ 87	$ 97	$ 80	$ 100	$ 81	$ 85
Restaurant profit	$ 149	$ 243	$ 226	$ 284	$ 65	$ 205	$ 204	$ 145	$ 237	$ 336

*Based on those providing the number of seats in their restaurant

EXHIBIT II-14 Food and Beverage

Statement of Income and Expenses
Ratios to Total Sales

	Years in Business		Type of Restaurant			Region				
	Under 5 Years	5 Years and Over	Full Menu Tableservice	Limited Menu Tableservice	All Others	Northeast	Southeast	North Central	South Central	West
Sales										
Food	74.7%	74.9%	74.9%	72.6%	78.1%	71.8%	76.1%	77.2%	74.7%	73.2%
Beverages	25.3	25.1	25.1	27.4	21.9	28.2	23.9	22.8	25.3	26.8
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales										
Food*	37.9%	41.1%	41.6%	38.2%	36.9%	42.9%	41.5%	39.1%	37.2%	40.0%
Beverages*	29.4	29.2	30.4	27.8	26.9	29.9	33.2	26.2	27.3	28.1
Total cost of sales	35.1%	37.7%	38.5%	34.4%	34.0%	39.0%	39.1%	36.1%	33.6%	36.4%
Gross profit	64.9%	62.3%	61.5%	65.6%	66.0%	61.0%	60.9%	63.9%	66.4%	63.6%
Other income	6%	2.1	2.3	.7	.6	.4	.7	1.0	.7	2.7
Total income	65.5%	64.4%	63.8%	66.3%	66.6%	61.4%	61.6%	64.9%	74.1%	66.3%
Controllable expenses										
Payroll	26.4%	28.0%	29.0%	25.1%	25.0%	27.2%	25.9%	27.1%	32.3%	26.6%
Employee benefits	3.9	4.6	4.7	3.9	3.5	5.1	3.3	4.0	5.1	4.8
Direct operating expenses	4.9	5.6	5.9	4.7	4.4	5.2	5.4	5.1	6.7	5.6
Music and entertainment	1.0	.6	.7	.7	.9	.7	.9	.6	.8	1.4
Advertising and promotion	3.9	2.5	2.2	3.3	4.7	2.1	3.2	3.5	1.8	2.1
Utilities	3.1	2.6	2.6	2.9	3.4	2.8	2.7	3.0	2.9	2.3
Administrative and general	7.0	5.3	4.6	7.6	8.1	5.0	4.5	7.3	5.5	4.9
Repairs and maintenance	1.8	1.9	1.7	1.9	2.3	1.8	2.1	1.9	2.2	1.6
Total controllable expenses	52.0%	51.1%	51.4%	50.1%	52.3%	49.9%	48.0%	52.5%	57.3%	49.3%
Income before occupation costs	13.5%	13.3%	12.4%	16.2%	14.3%	11.5%	13.6%	12.4%	16.8%	17.0%
Occupation costs										
Rent, property taxes and insurance	6.2	5.6	5.4	5.9	8.3	4.7	5.6	6.4	5.9	6.6
Income before interest and depreciation	7.3%	7.7%	7.0%	10.3%	6.0%	6.8%	8.0%	6.0%	10.9%	10.4%
Interest	1.5%	.8%	.9%	1.0%	1.5%	1.1%	1.0%	1.0%	.9%	1.0%
Depreciation	3.4%	2.2%	2.1%	3.4%	3.3%	2.9%	2.0%	2.9%	3.6%	2.2%
Restaurant profit	2.4%	4.7%	4.0%	5.9%	1.2%	2.8%	5.0%	2.1%	6.4%	7.2%

*Ratios based on individual department sales

EXHIBIT II-15 Food and Beverage

Statement of Income and Expenses—Amounts Per Seat

	Location			Affiliation			Volume		
					Multi-Unit				
	Urban	Suburban	Rural	Single Unit Independent	Company Operated	Franchisee Operated	Under $500,000	$500,000 - $999,999	$1,000,000 and Over
Sales									
Food	$2957	$3154	$2811	$2810	$3844	$2664	$2038	$2617	$4425
Beverages	1141	1075	694	1188	1265	598	660	905	1737
Total sales	$4098	$4229	$3505	$3998	$5109	$3262	$2698	$3522	$6162
Cost of sales									
Food	$1132	$1304	$1108	$1175	$1497	$ 977	$ 750	$1049	$1802
Beverages	324	305	215	351	344	156	211	263	468
Total cost of sales	$1456	$1609	$1323	$1526	$1841	$1033	$ 961	$1312	$2270
Gross profit	$2642	$2620	$2182	$2472	$3268	$2229	$1737	$2210	$3892
Other income	34	36	31	53	43	19	58	24	49
Total income	$2676	$2656	$2213	$2525	$3311	$2248	$1795	$2234	$3941
Controllable expenses									
Payroll	$1116	$1137	$1001	$1153	$1277	$ 809	$ 691	$1000	$1685
Employee benefits	204	175	163	197	226	117	99	149	324
Direct operating expenses	205	244	192	219	298	121	128	191	343
Music and entertainment	21	34	17	26	29	23	11	38	30
Advertising and promotion	116	83	112	82	101	172	109	85	110
Utilities	95	109	108	91	120	110	85	93	124
Administrative and general	253	216	159	176	339	313	221	159	321
Repairs and maintenance	70	81	63	64	100	75	56	57	109
Total controllable expenses	$2080	$2079	$1815	$2008	$2490	$1740	$1400	$1772	$3046
Income before occupation costs	$ 596	$ 577	$ 398	$ 517	$ 821	$ 508	$ 395	$ 462	$ 895
Occupation costs									
Rent, property taxes and insurance	251	239	139	195	325	270	179	205	336
Income before interest and depreciation	$ 345	$ 338	$ 259	$ 322	$ 496	$ 238	$ 216	$ 257	$ 559
Interest	$ 28	$ 42	$ 27	$ 34	$ 36	$ 29	$ 30	$ 35	$ 34
Depreciation	$ 98	$ 89	$ 82	$ 84	$ 123	$ 89	$ 67	$ 90	$ 124
Restaurant profit	$ 219	$ 207	$ 150	$ 204	$ 337	$ 120	$ 119	$ 132	$ 401

EXHIBIT II-16 Food and Beverage

Statement of Income and Expenses—Ratios to Total Sales

	Location			Affiliation			Volume		
					Multi-Unit				
	Urban	Suburban	Rural	Single Unit Independent	Company Operated	Franchise Operated	Under $500,000	$500,000–$999,999	$1,000,000 and Over
Sales									
Food	75.2%	74.6%	79.1%	72.1%	81.8%	76.0%	75.9%	74.3%	74.2%
Beverages	24.8	25.4	20.9	27.9	18.2	24.0	24.1	25.7	25.8
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales									
Food*	38.5%	42.4%	40.2%	43.1%	33.1%	38.1%	38.9%	40.8%	40.9%
Beverages*	29.0	29.2	30.7	30.9	27.2	26.9	31.0	29.2	27.4
Total cost of sales	35.5%	38.8%	38.1%	39.2%	31.6%	35.2%	36.2%	37.3%	37.4%
Gross profit	64.5%	61.2%	61.9%	60.8%	68.4%	64.8%	63.8%	62.7%	62.6%
Other income	9	2.0	1.1	2.4	6	7	3.0	1.1	8
Total income	65.4%	63.2%	63.0%	63.2%	69.0%	65.5%	66.8%	63.8%	63.4%
Controllable expenses									
Payroll	27.0%	28.0%	27.7%	29.1%	25.0%	25.2%	27.1%	27.9%	27.5%
Employee benefits	4.5	4.1	4.7	4.6	3.5	4.4	3.8	4.2	5.1
Direct operating expenses	4.9	6.1	5.9	5.8	3.7	5.6	4.7	6.0	5.5
Music and entertainment	6	1.0	8	8	5	9	5	1.2	5
Advertising and promotion	3.2	2.3	3.0	2.2	5.8	2.1	3.9	2.5	1.9
Utilities	2.7	2.9	3.2	2.6	3.6	2.6	3.4	2.7	2.2
Administrative and general	6.6	4.6	4.6	4.5	9.9	6.3	7.8	4.5	4.8
Repairs and maintenance	1.9	1.9	1.8	1.7	2.4	1.9	2.1	1.7	1.8
Total controllable expenses	51.4%	50.9%	51.7%	51.3%	54.4%	49.0%	53.3%	50.7%	49.3%
Income before occupation costs	14.0%	12.3%	11.3%	11.9%	14.6%	16.5%	13.5%	13.1%	14.1%
Occupation costs									
Rent, property taxes and insurance	6.3	5.2	4.2	4.7	8.6	6.3	6.7	5.9	5.4
Income before interest and depreciation	7.7%	7.1%	7.1%	7.2%	6.0%	10.2%	6.8%	7.2%	8.7%
Interest	8%	1.3%	1.0%	1.0%	1.1%	9%	1.3%	1.1%	7%
Depreciation	2.8%	2.4%	2.2%	2.2%	3.1%	3.1%	2.6%	2.7%	2.4%
Restaurant profit	4.1%	3.4%	3.9%	4.0%	1.8%	6.2%	2.9%	3.4%	5.6%

*Ratios based on individual department sales

Comments
from Laventhol & Horwath Offices around the Country

From Atlanta—

The restaurant industry in and around Atlanta continues to grow, particularly in the outlying suburban areas. The ongoing migration from the north to the southeast has enabled existing food service operations to prosper and has spurred the development of numerous new food and beverage establishments. These new facilities which are concentrated in northwest and northeast Atlanta are predominantly fast-food in nature or limited menu/reasonably-priced/theme-oriented table service restaurants with moderate to substantial ancillary beverage and entertainment facilities.

While 1979 was not a particularly good year for the restaurants in the downtown area, the future does look optimistic. Of the numerous announcements for the new development in and around the CBD, the decision by the Georgia Pacific Corporation to move its corporate headquarters back to Atlanta by 1982 was the most notable. It is anticipated that this increased activity will result in the development of more restaurants and hotels in the downtown area.

The opening of the new Midfield Terminal at the Hartsfield Atlanta International Airport, scheduled for late 1980, has generated renewed interest in this sector of Atlanta. New hotels with extensive group meeting facilities, have spearheaded what is anticipated to be a doubling in the number of guest rooms in the immediate airport area over the next few years. Food and beverage outlets associated with these new properties are anticipated to be substantial. The numerous other commercial and industrial developments planned for the airport area are also expected to result in the construction of a variety of free-standing restaurants.

Overall, restaurant clientele in all areas of Atlanta have become increasingly value-conscious. Those operations that have been able to offer a quality product with friendly, efficient service and a good economic value have prospered in the past and should continue to be successful in the future. As Atlanta continues to grow and develop as an international city, ethnic and specialty restaurants should begin to become more common as well as more successful. In summary, the current strength of Atlanta's economy and identifiable prospects for continued growth should result in an increasingly attractive environment for the development and operation of quality restaurants.

William Moeckel
Mark Woodworth

From Boston—

Restaurant sales in Boston continue to boom with increases in sales estimated at between 10 and 15 percent. Having weathered the impact of the gasoline shortage, which affected most of New England's tourist areas, area operators are capitalizing on the many attractive facets of Boston. New restaurants are opening throughout the city, and Quincy Market operators report record sales. One example of a new restaurant experiencing capacity records is Houlihan's Old Place which opened in September adjacent to Quincy Market.

On the legislative scene, Massachusetts restaurants achieved victory with their successful lobbying to reduce the States Meals Tax from 6 to 5 percent as of January 1, 1979.

As a result of the gas crisis, restaurant operators are carefully evaluating their volume and operational patterns. Rising food and labor costs and the national energy situation continue to be the primary threats to bottom-line profitability. Also, the addition of attractive theme restaurants in Boston has compelled all operations to concentrate more on management techniques, marketing, and internal controls rather than depending upon higher prices.

Boston's restaurants benefit from the area's social tendency to dine out regularly, and also its strong commercial and tourist patronage. This unique situation presents a promising future as this sophisticated clientele continually expects to be satisfied and amused. While the Boston restaurant market has an overall atmosphere of variety, growth, and excitement at hand, care, caution and costs temper—but do not impede—an optimistic future in the 80's.

Richard Kelleher

From Chicago—

In early 1979, Chicago experienced one of the heaviest snowfalls in its history and, as a result, restaurant sales dropped substantially in the first quarter of the year. Then, summer came, so did the gas shortage, and again, food-away-from-home-establishments were negatively affected. With sales down, Chicago restaurateurs concentrated on cost containment. Many restaurants experimented with menu substitution in order to find low-cost items that nonetheless were perceived by the clientele as having relatively high value. Accordingly, such products as Mexican entrees appeared on the menus of more and more restaurants which could once be classified as having exclusively a steak and seafood orientation. Restaurants experiencing extraordinary beverage sales remain concentrated in the Rush Street area of town. Their success is attributable to theme, decor, and overall environment, as well as to location.

The outlook for 1980 is far more positive than was the case for 1979. With a less severe winter anticipated and with cost containment continuing as a focal point, area restaurateurs are determined to improve their bottom lines.

Richard Conti
Peter Paglio

From Cleveland—

For the restaurant industry, 1978 was an excellent year in the Cleveland area. All operators surveyed reported increased sales over the previous year. This was partially attributed to increased menu prices; however, the major factors were greater customer patronage and the opening of new operations.

In the downtown area, the number of fast food restaurants is growing, with several of the national and regional chains either entering the market for the first time or adding more outlets. Growth in table service restaurants has also continued, with theme restaurant designs focusing on the cocktail lounge and social interaction rather than on the traditional table service concept. Seafood restaurants have become more common and are enjoying great success.

In contrast to activities for 1978, operators reported a decline in total sales volume and customer counts during the first half of 1979. Continued high inflation is seen as the major reason for the decrease in patronage. Operators feel that, fortunately, the Cleveland area did not experience gas shortages to any major degree which could have made the situation even worse. Profit margins have decreased slightly due to rising food, labor and energy costs and the inability of restaurant operators to pass these costs on to an increasingly resistant public. To combat this situation, operators are tightening cost controls and are trying to improve productivity. In addition, the emphasis is on merchandising items where greater profits are realized (i.e., beverage sales), and on techniques for increasing sales volume, such as special discount offers.

It is expected that the prevalent trend during the first half of 1979 will continue, resulting in this year experiencing a slower rate of growth or actual stagnation after the strides that took place in 1978.

Peter Roffle
Steve Zamborsky

From Denver—

The restaurant industry in Denver has been experiencing the same development boom that has hit the other markets in those parts of the country most heavily involved in energy research and development.

In the downtown sections of Denver, there has been renovation of existing space. This is causing a corresponding growth in the luncheon market. So far, the demand for fine luncheon facilities still exceeds the supply. When occupied, the new center-city residential projects will probably increase evening demand sufficiently to warrant the development of more food and beverage operations to satisfy both of these demand segments. The demand for restaurant facilities is also being affected by the new theatre and performing arts center.

In response to this revival in center-city activity, downtown food and beverage operations are experiencing a more level pattern of daily business, and several are being redesigned to meet the increasing level of sophistication which has accompanied the immigration of both people and corporations. Several of the large multi-use projects presently under construction have an ample variety of restaurant and bar facilities planned.

The fast growing residential population has fostered restaurant developments in the suburban areas as well, primarily south-east and west of the city. These are typically located near office and multi-use housing complexes.

The Denver area can expect to experience a large increase in the number and variety of food and beverage operations over the next several years as supply adjusts to demand. The efficiency with which these operations react to market conditions, minimum wage and inflation will dictate their ultimate survival.

Gary Schettl

From Miami—

During the first half of 1979, the South Florida area experienced an increase in restaurant sales of between 8 and 15 percent, which has been in line with our projections. The continuing surge in meat, labor and energy costs have, however, played a significant role in decreasing profit margins. For calendar year 1979, food and beverage volumes at Ft. Lauderdale's fine dining establishments were up 25–30 percent over 1978. However, the effects of both the energy crisis during the summer months, and the slight economic downturn during the fall, were evident in slightly lower guest counts in 'family-style' restaurants here. Nonetheless, this overall downward trend is considered both localized and short term as illustrated by area wide hotel occupancies that have increased significantly during the same period.

Strong restaurant demand is still evident in Miami, especially in the Kendall Drive and Southwestern areas of the community. Regional shopping malls, such as Dadeland, have spawned strong family dining as exhibited by the establishment of a limited menu tableservice restaurant in May 1979. Restaurants which are centered around such themes as tropical and ethnic cuisine continue to do well.

The outlook for the area is good as new construction activity continues to surge. This will certainly create demand for new and innovative facilities and operations throughout the city and its suburbs.

M. Chase Burritt

From Houston—

Food service sales in the Greater Houston area have shown a substantial real growth in 1979, ranging from a low of eight percent in some full service restaurants to a high of twenty-five percent in some fast food operations. The major contributing factor proves to be Houston's increasing growth in both population and purchasing power.

Labor and energy head the list of problem areas for Houston's restaurateurs. While the high cost of both commodities has always been a problem in the food service industry, the question this year was availability.

All Houston area restaurants are having difficulty attracting employees, especially in key production positions. Fast food restaurants find it particularly difficult to attract and retain managers. Houston's unemployment rate, which is approaching three percent, is the primary contributor. Increased salaries and benefits have done little to ease the problem.

Cost increases have placed a great deal of pressure on profit margins, tempered new unit growth and turned the attention of operators toward improving unit level productivity and bolstering market shares. Many chains have increased local advertising in order to capture more market visibility and support new product introductions. At the fast food level, this experimentation is designed to direct menu concentrations away from beef while diversifying the product mix toward a full meal concept.

Ironically, Houston, the world's energy capital, was hit with gasoline shortages, lines and rationing this summer. This artificial shortage was caused by a Federal allocation system which used 1974 gasoline sales volumes as a basis to allocate gasoline in a country which has added nearly 400,000 cars in the intervening five years. There was nothing artificial about the shortage's impact on the majority of area restaurateurs, however. With the exception of center city operators who serve a largely pedestrian market, most restaurants experienced a decline in sales. With the resumption of gas availability, sales have rebounded.

Houston's outlook for the remaining quarter of 1979 is for moderate sales increases through December. Predictions for the 1980's show Houston continuing as the fastest growing major city in the country with over a million population.

Peter Griffith
Robert Massey

From Detroit—

1979 was a year of mixed results for the Michigan restaurant industry. Expansion continued, but it appeared to be increasingly limited by a number of factors.

The center city area of Detroit has had a resurgence of restaurant activity, spurred by development projects such as Rennaissance Center and Joe Louis Arena. The restaurants within the Renaissance Center are doing well in general. Some of the state's finest restaurants are nearby and they are prospering as well. Near downtown, an ethnic restaurant/retail area is evolving in Greektown. The renovation of this area has shown encouraging results.

The suburban areas of Detroit have had the most rapid restaurant expansion in recent years. National chain presence has been apparent for years in the fast food segment, but only recently have the chain dinner houses begun to move in too. Some of the local chains in this market are among the strongest in the nation, and they have been expanding aggressively.

Although the expansion activity is on-going, many of the fast food operators have begun to experience some declines in customer counts. The current economic slowdown in the Detroit area and Michigan in general is almost exclusively a function of the national decline in automobile sales caused by the continuing petroleum crisis of 1979 and 1980. Moreover, compounding the problem was the rate of inflation which rose above 15 percent in 1979. The result has been limited sales growth, or even contraction, in the fast food segment. The weaker national chains have been particularly hard hit.

Operators have had to face several other problems. The Michigan tip credit is lower than most other states, which has increased labor costs. In addition, unemployment insurance is negatively affected by the cyclical nature of the auto industry. These factors, combined with continued increases in the minimum wage, have made labor costs a difficult problem.

Finally, as is true nation-wide, the increases in meat prices present another major difficulty to be surmounted.

In recent months, restaurant operators have begun to be quite sensitive about restaurant critics writing for local newspapers and magazines. These critics often visit new restaurants in their first week of operation and unduly criticize the restaurant for the normal opening problems with which we are all familiar. Operators are beginning to consider ways of combatting what they perceive to be such unfair and prejudicial reporting.

Despite these problems, most Detroit restaurant operators face the future with optimism, providing, however, that governmental regulation does not increase any further.

John Leary
Edward Shaw

From Kansas City—

The restaurant industry in Kansas City expanded during 1978 and the first half of 1979 with the opening of several new establishments. Much of the development that took place in the growing area of Johnson County was partially attributable to some relaxation in Kansas liquor laws. New entries include a private supper club and discoteque as well as a new unit of a locally developed specialty restaurant and lounge operation. We anticipate continued specialty restaurant development in the Kansas suburbs as operators and developers respond to the recent changes in liquor legislation. The prototype unit of a planned chain of specialty/family restaurants also opened recently at a site in Johnson County. Additional development in the Kansas City area includes two gourmet entries, one located near the Country Club Plaza where a specialty fresh seafood restaurant is also under construction, and one located near the state line in southern Jackson County.

The increase in the minimum wage in January, in conjunction with food cost inflation, brought response in several forms. A survey by the Missouri Restaurant Association showed an average menu price increase of five to seven percent over 1978 levels in the restaurants surveyed. Additionally, operators are reconsidering their staffing requirements, eliminating unnecessary overtime, implementing programs to increase employee productivity and better utilizing part-time labor, allowing lower fringe benefit costs.

Despite the problems of increasing labor and food costs facing the restaurant industry, local operators and owners are cautiously optimistic about the year ahead. Continued increases in restaurant sales and traffic are anticipated while careful monitoring of inflationary trends in wage and product costs will be essential to success in this growing and competitive market.

Jeff Marvel
John Weeman

From Los Angeles—

Los Angeles restaurants experienced mixed results in 1979. Restaurants with excellent product, service, and value achieved good sales increases. Those establishments lacking these characteristics struggled to maintain 1978 sales levels.

When the gas crisis hit Los Angeles in May, the restaurant industry initially suffered considerably. By the end of June, availability of gasoline improved. While there continues to be some modification of driving habits, we do not consider this to be a major factor for urban and suburban restaurants. Availability of gasoline will, however, continue as a source of major concern for operators in highway and resort locations.

Other factors which we perceive as having a negative effect on sales in most restaurants include: 1) new competition (although not as much as in the prior three years), 2) the general pinch that consumers feel from inflation, and 3) the specific effect of large menu price increases.

Looking forward, considerable new competition from foreign operators is expected to be a characteristic of our market in 1980. We expect to see operators from Mexico, the Far East, and Europe starting operations in the Los Angeles area.

On the part of the operators of small to medium-sized operations, we are noticing a new vocabulary. One hears the terms "food cost ratio" and "minimum wage" less. The new phrase is "positioning for acquisition". Clearly, the interest in acquisition is not purely with the major company acquirors; any of the potential acquirees are as active. There is an increasing awareness that there is a great deal of money to be made in developing a demonstrably successful and expandable concept, and, at the right time, letting it be acquired by a major company with the resources to engineer "rapid rollout" (national expansion program). In many cases, the steps taken to position the small or medium-sized chain for acquisition would be good business decisions whether or not the chain was to be acquired. In other cases, there has been pure and simple merchandising which has resulted in some surprises after acquisition. An example is the company which was extremely impressed by a potential acquiree's manuals. An apparently well-documented manual existed for each operating position. After moving quickly to cement the acquisition, however, it was discovered that the only two copies of each manual were to be found in the corporate offices, and the "well-documented procedures" bore little resemblance to those followed by employees in the restaurants.

Robert Patterson

From Minneapolis/St. Paul—

The Twin Cities restaurant industry continued to expand with several new full service establishments opening in 1979. While theme restaurants still dominate the metropolitan area, new ethnic operations featuring Mexican and Polynesian menus and décor have established their market position.

Both of the Twin Cities' downtown areas are involved in redevelopment activity which will impact the restaurant climate. St. Paul's downtown redevelopment has already influenced the industry by attracting two new establishments with more expected to follow. Minneapolis is undergoing a major downtown redevelopment project, which required the razing of five restaurants in 1979. A domed athletic stadium which will generate additional restaurant demand is also under construction near downtown Minneapolis.

The downtown areas of the Twin Cities offer a unique situation not found in other downtown centers as a result of its Skyway System (i.e., overhead, enclosed walkways between buildings), which connects a 14-block area in each city. These skyways create pedestrian traffic on the second floor of commercial buildings, thereby providing an additional level of desirable restaurant locations. Those restaurants located within the skyway system enjoy a competitive advantage over those who are not, especially when the cold winter months descend on the Twin Cities.

Continued increases in restaurant sales and traffic are anticipated for 1980. The popularity of Sunday brunch buffets will result in more restaurants converting to Sunday buffets in an effort to generate additional sales. Anticipated increases in food prices are expected to cause more menu changes in the coming year, as operators replace high cost recipes with creative menu items having lower food costs.

Stephen Sherf
Daniel Daniele

From New York—

After adjusting for inflation, New York City restaurant sales showed moderate growth during 1978. This rise was primarily due to the increased number of covers served. However, cost of sales rose slightly faster than sales as food prices swelled. Payroll and related expenses further eroded profitability because of the effects of minimum wage, tip credit and employee benefits.

Similar expense trends are occurring in 1979. The successful New York City restaurateur is increasingly conscious of cost controls. Menus are reviewed frequently for popularity of items and pricing. Electronic registers offer inventory and pre-check control in addition to management information. Staffing is being closely matched to busy revenue periods while hours of service are being reduced. Energy costs, temperature restrictions, and anti-smoking regulations are causing concern and are being dealt with by the New York State Restaurant Asscciation as well as the National Restaurant Association.

Perhaps the most noteworthy culinary trend in Manhattan is the rapid rise in the number of "health food" restaurants featuring salads, yogurt, and other "natural" selections. These establishments offer distinct profit advantages. Leasehold improvements are often less than other restaurants, due to the limited kitchen space and simple décor. The food and payroll cost

operating ratios in relation to sales are lower than other New York City restaurants because of the menu composition. Finally, these establishments are experiencing high volumes of business as their product is moderately priced and New Yorkers desire wholesome foods.

In the same manner, Japanese restaurants are flourishing in Manhattan. Their rapid growth can be attributed to their uniqueness, the large Japanese business community and their low-calorie, healthy menus.

Bjorn Hanson

From Orlando—

During the past few years, restaurant expansion in Central Florida was completely dominated by the fast food industry. Within a short period of time, every conceivable food franchise existing in the United States opened at least one outlet, and sometimes several, along highly concentrated corridors of tourist activity or residential/commercial development. International Drive, the tourist oriented hotel strip in Florida Center quickly became known as "Restaurant Row" as several dozen fast food units opened along the one and one-half mile stretch of road. Hotel operators were hit the hardest by the increased competition as total food and beverage sales in their facilities dropped sharply from previous years. In Northeast Orlando, a similar concentration of fast food franchise development occurred along a four-mile stretch of Highway 436, a heavily traveled commercial and commuter route on the outskirts of the city. These restaurants were built in response to the demand generated by the rapid development of high-density residential complexes and commercial centers in the area.

Recently, however, there have been signs that a new restaurant trend is emerging—one that presages a shift in emphasis from fast foods to a higher quality of food and service. One of the hottest growth markets consists of restaurants that offer a more sophisticated atmosphere, a wider variety of menu items (including alcoholic beverages) and, quite often, full tableservice. Generally the "new" customers are more mature, more affluent and more demanding than previously, especially in the areas of nutrition, menu variety, value, service and ambience.

Even more on the upscale trend, there has been a resurgence of fine dining and full tableservice restaurants in both downtown Orlando and in Winter Park. In Orlando, the French Market opened for business and sparked the interest of other restaurant developers who sought to capitalize on the demand generated by downtown employees. Soon, four other restaurants were operating in the downtown area. These establishments cater basically to the lunch crowd but some are open for dinner and after-theatre patronage from the Great Southern Music Hall and Bob Carr Auditorium. In Winter Park, several new, high quality restaurants have opened recently and appear to be prospering. Their success attests to the continued strength of the market for better restaurants.

Despite the increased competition, long-time favorites and local landmark restaurants have not lost their popularity. One of these, voted one of the best steakhouses in Central Florida, was housed in a tiny, somewhat delapidated building that nonetheless had waiting lines a block long. Recently, the old building was replaced by a modern facility three times the original size—and the waiting lines are still a block long. Quality food, reasonable prices and good service are the undisputed essential components in the formula for success.

The future outlook is promising as several major projects are presently underway in Central Florida which should contribute to the further expansion of the restaurant industry. Walt Disney World's Experimental Prototype Community of Tomorrow (EPCOT), the proposed Orange County Convention/Civic Center and the new Orlando International Airport should generate an additional inflow of tourists, businessmen and conventioneers in the mid-1980's all of whom would be prospective food service customers. All this adds up to a dramatic change for the food service industry in Central Florida and new market opportunities to be explored.

J. Paul DeMeyer
Charles Ross

From Philadelphia—

Philadelphia continues to be one of the most active and fastest growing restaurant markets on the East Coast. The restaurant renaissance which began in 1975 introduced the type of restaurateur who creates a dining experience rather than just a good place to eat; this in turn has increased public willingness to dine out. Further, the changing demographics of the center city resident have increased the demand for food, beverage and entertainment.

In addition to healthy market conditions, these restaurateurs have enjoyed higher than average real growth by providing menus which parallel contemporary consumer preferences.

As growth slows, competitive pressures for market share, compounded with increases in food, labor, and other direct operating costs will require a contemporary approach to the management of Philadelphia restaurants. We expect to see more positive action taken by Philadelphia restaurateurs to increase customer counts and improve employee productivity.

Restaurant margins are shrinking, but operators who are in tune with customers' preferences and follow a well defined marketing and operating plan are prepared for the projected inflationary spiral. Those who are not so in tune, will find it increasingly difficult to maintain profitability and return on investment.

In general, the overall atmosphere in Philadelphia's restaurant business is one of excitement, growth, variety and continuous change.

Larry Cleek

From San Francisco—

San Francisco continues to be a "restaurant town" with many new, high-quality food and beverage operations. Due to the sophistication of the market, new restaurant development is dominated by private entrepreneurs opting for smaller, low overhead operations with pleasant ambience. Since San Francisco is a city of many neighborhoods, a number of the successful restaurants are located away from the downtown area. As is the case in many other urban areas, regional chain restaurants continue to stay away from San Francisco proper, but are locating in the surrounding suburbs where they perceive their interests to be best served. Additionally, some national chains have not entered the San Francisco market because of the payroll costs brought on by high minimum wage rates in California. Nonetheless, some fast food chains, although limited in number, are locating within the city.

San Francisco continues to be a prime tourist destination, a characteristic that helps to support all segments of the restaurant market. In consequence, tourist patronage of food operations has decreased only slightly despite energy shortages and the economic recession.

Hotel restaurants are being marketed independently from the hotel and several experiments in *cuisine minceur* have proven successful.

Discoteques also continue to be popular with many private clubs in vogue, but their continued growth appears to be moderate; some serve a limited menu as a service to their customers.

With the continued optimism concerning the future of tourism in San Francisco, coupled with the sophistication of the resident population, the restaurant industry should continue to prosper here.

Clarence H. Peters

From Tampa—

Restaurant sales in the Greater Tampa area continue to increase at a rate that is

substantially above the increase that might be expected from inflation. Thus, there is a solid base of real growth in area restaurant sales. Restaurant sales in the Greater Tampa area (Hillsborough County) increased 22.8 percent in 1977 over 1976. According to the Florida Department of Business Regulations, restaurant sales were up 17.4 percent during 1978 and also increased 17.8 percent for the first half of 1979. The major contributing factors continue to be attributed to the expanding county wide population, the growth of tourism in the area, and the national trend toward eating out more frequently whether it be in a fast food or full service restaurant.

The fuel shortage did affect tourist travel during the early summer, but the number of tourists did gradually increase from mid-July through Labor Day. It is not immediately evident how this will effect annual restaurant sales for 1979, but we do not anticipate this brief slowdown will significantly change the growth pattern that has been established the past few years for the Greater Tampa area.

Nancy Landino

From Providence—

In Providence, restaurant operating results for 1978 showed sales up 7 percent, whereas cost of sales increased by only 1 percent. Payrolls, however, were down somewhat due to a tighter rein on payroll costs. Despite the fact that sales increased, customer counts were still down because of inflationary pressures.

Results for the first half of 1979 showed total sales volume to be about the same as for 1978 despite another 6 to 7 percent increase in prices. On the other hand, the cost of sales is expected to rise by as much as 15 percent and payroll by as much as 10 percent. Total customer counts are expected to decline somewhat however.

Like those in many other cities, Providence restaurants have been suffering from two major operating problems: (1) getting and retaining good personnel and (2) the increased costs of food and supplies. In connection with the former, increased government regulations concerning minimum wages and working hours have increased the cost of doing business. To combat increases in the cost of food and supplies, closer attention is being paid by many restaurateurs to obtaining the lowest prices available consistent with maintaining quality. A secondary problem facing Providence restaurateurs is to persuade prospective customers to patronize downtown restaurants at night, especially early in the week. In an effort to increase sales, lower menu prices are being offered as are businessmen's specials at noontime.

Donald S. Horowitz

From St. Louis—

Restaurant operators in St. Louis, as in all areas of the United States, have experienced many problems in 1979. Severe winter weather and summer gasoline shortages each had their impact on weekend business in many establishments. The increase in the minimum wage and rapid escalation of food prices early in the year made it difficult for many operators to keep prices in line with costs. The recession is bringing a more price-conscious clientele to the restaurants. Dollar volume of business is up, primarily due to inflation, but customer counts are down.

These problems have been met head on by the food service operators of St. Louis—with methods that vary as much as our unusual restaurants (from paddlewheel steamboats to salad specialty shops). Inflation and high food costs have been countered by increasing controls and prices and decreasing portions. Many multi-unit operators have been consolidating their purchasing efforts. Some of St. Louis' restaurants are concentrating on more selective hiring practices, better training and supervision, in an effort to reduce turnover and costs while improving customer satisfaction. The major problems ahead, according to most operators, are inflation and a shortage of skilled labor.

Development is continuing in the Laclede's Landing area along the Riverfront. To date, approximately $20 million has been invested or committed to this nine-square-block area. In the last two years, 13 new food service outlets have opened in Laclede's Landing, most of which feature a limited menu and theme décor, both of which are proving very popular. Plans for the area call for some further food and entertainment development, but growth is planned primarily in office space and the addition of condominiums, apartments and a luxury hotel. Although the West County entertainment areas are still expanding, Laclede's Landing has been experiencing the most rapid growth in food and beverage outlets in the St. Louis area in the last two years.

Daniel R. Beam

From Washington, D.C.—

In recent years, the surge in construction and new building developments in Washington, D.C., along with the ever increasing number of trade associations and professional services headquartered there, has stimulated a 47 percent rise in the number of restaurants between 1972 and 1977. In all, restaurants in the District of Columbia receive more consumer dollars than any other retail business and have the largest annual payroll.

Nonetheless, restaurant sales did experience soft spots as some major restaurants reported a slow-down in business as 1979 progressed. Local chain operators indicated that gasoline worries started the slow-down and rising prices spurred on by increasing food, labor and energy costs continued to aggravate the situation. One large chain operator responded to the problem by making across-the-board cuts in the hours worked by its restaurant employees—from an average of 30 hours per week in 1977 to 25 hours in mid-1979. Other responses include some modest price cutting at fast food units, price increases at table service restaurants and, in general, increased competition for market share.

Overall, 1978 restaurant sales increased an estimated 15 percent. 1979 sales appeared to be up about 8 to 10 percent—below the rate of inflation. With no end to the rising costs of food, payroll and energy in sight for 1979, and a noticeable resistance to rising menu prices, the competition for market share is expected to become more intense during the remainder of 1979 and into 1980.

Bruce D. Mosby

Analyze your own restaurant

A periodic analysis of your restaurant's financial performance may provide some early warning signs of potential problems. Food costs or payroll may be inching up month by month. Some controllable expenses could be increasing while others are decreasing.

Day to day changes in your costs could appear small and possibly go unnoticed. However, examination on a regular basis could uncover undesirable trends, allow you to take corrective action and control situations that could lead to a crisis. Here lies the key to effective management. To help you toward better management, we have included a worksheet on the following page, designed to help you analyze how well your restaurant is doing in comparison to the rest of the industry.

Follow these simple instructions for completing the worksheet:

1. Enter your financial data in the first column.

2. Compute the percentages for column 2 by dividing the amounts by total sales. (Note—where food and beverage sales are broken down separately, compute percentage of food cost by dividing cost of food by food sales and for the beverage cost percentage divide cost of beverage sales by beverage sales.)

3. Calculate the supplementary statistics in accordance with the formulas given.

4. List the appropriate comparative percentages or ratios from this report in column 3.

5. Compute the variances by dividing the difference between the figures in column 2 and column 3 by the figures in column 3. Multiply the result by 100 to express the variance as a percentage.

6. If the variance is greater than plus or minus 10 percent, further analysis should be made to determine the reason for that variance.

WORKSHEET

Complete and Compare
Statement of Income and Expenses

		Your Figures Dollars	Your Figures (% of Sales)	Restaurant Industry Report	Variance + or -
Sales					
Food	$		%	%	
Beverage	$		%	%	
Total sales	$		%	%	
Cost of sales					
Food	$		%	%	
Beverages	$		%	%	
Total cost of sales	$		%	%	
Gross profit	$		%	%	
Other income	$		%	%	
Total income	$		%	%	
Controllable expenses					
Payroll	$		%	%	
Employee benefits	$		%	%	
Direct operating expenses	$		%	%	
Music and entertainment	$		%	%	
Advertising and promotion	$		%	%	
Repairs and maintenance	$		%	%	
Total controllable expenses	$		%	%	
Income before occupation costs	$		%	%	
Rent, property taxes and insurance	$		%	%	
Income before interest and depreciation	$		%	%	

Supplemental Operating Information	Your Figures	Restaurant Report	Variance + or -
Sales per seat			
Food	$	$	
Beverage	$	$	
Total	$	$	
Average receipt per cover (total sales ÷ covers)	$	$	
Daily seat turnover (covers ÷ seats ÷ 365 days)	times	times	
Index of productivity [sales ÷ (payroll + benefits)]	times	times	
Current ratio	times	times	
Accounts receivable ratio to sales	times	times	
Inventory turnover (cost of sales ÷ average inventory)	times	times	
Food	times	times	
Beverage	times	times	
Total	times	times	
Return on equity (net profit ÷ net worth)	%	%	